# REVIEWS

## THE PUBLICATIONS OF THE NATIONAL MONETARY COMMISSION

"To secure an organization of capital and credit by which confidence can be firmly established and credit maintained under all circumstances and conditions, is the task committed to the National Monetary Commission."[1]

This statement by Senator Aldrich indicates the broad fashion in which the Monetary Commission conceives its task. By way of preparation, the commission early decided to examine into the banking experience, not only of the United States, but also of foreign countries. To this end it engaged a number of economists, financial writers, and bankers to prepare monographs upon topics of especial importance, and it has given these monographs to the public as fast as they have been completed. What practical use the commission can make of this large mass of material, in framing new bills for submission to Congress, remains to be seen. But certainly economists interested in currency problems will find the publications of the commission a most valuable addition to their literature.

The publications already received deal with banking and kindred matters in England, France, Germany, Austro-Hungary, Russia, Switzerland, Belgium, the Netherlands, and Sweden, the United States, Canada, Mexico, and Japan. Other monographs have been announced upon banking in Italy. In addition, there are a number of miscellaneous contributions which deal with banking and fiscal problems in several different countries.

[1] An address by Senator Nelson W. Aldrich . . . on the Work of the National Monetary Commission, p. 3. This address, like all the other publications referred to below, is issued as a Senate document by the Government Printing Office, Washington.

*The English Banking System* by Hartley Withers, financial editor of the London *Times*, describes lucidly the complicated relationships among the Bank of England, the joint-stock banks, Scotch banks, private banks, accepting houses, savings banks, and discount companies. As his title implies, Mr. Withers sees the English system as a whole, so that his monograph admirably supplements the numerous accounts of the Bank of England. It has the advantage over Clare's *Money Market Primer* of being up to date. In fact, its most formidable rival is another book by Mr. Withers, *The Meaning of Money*.

Sir R. H. Inglis Palgrave contributes a *History of the Separation of the Departments of the Bank of England.* Like all his work, this paper is exceedingly thoro. Liberal extracts are published from the evidence taken by Parliamentary committees upon the proposal to separate the departments, from speeches by Sir Robert Peel and others, and from the correspondence between the government and the bank on the three occasions when the limiting clause has been suspended. The writer concludes that "the adoption of the arrangements of the Act of 1844 cannot be recommended to any other country."

Under the title *English Banking Organizations*, Mr. Ernest Sykes describes briefly the Institute of Bankers, and the Central Association of Bankers. More interest attaches to the account of *The London Bankers' Clearing House*, by its honorary secretary, Robert M. Holland. Mr. Holland has collected the meagre scraps of evidence about the origin of the practice of clearing checks in the eighteenth century. The gradual expansion of the clearing house, the simplification of its methods, the admission of the joint-stock banks, and later of the Bank of England, he is able to describe in detail. He appends tables showing the volume of business transacted in each year since 1868.

But the most valuable service which the Commission has rendered to students of English banking consists in having induced the London *Economist* to bring together in systematic form its periodical reports upon the condition

of banks and the state of the money and exchange markets. The value of these data has long been recognized, and not a few laborious efforts have been made by investigators of special problems to compile tables from the weekly issues or the numerous "supplements." At last the Monetary Commission has supplied the initiative which the *Economist* lacked, and the whole body of data has been made readily accessible. The inclusion of an elaborate set of tables compiled by Sir R. H. Inglis Palgrave, much like those published in his book upon *The Bank Rate and the Money Market,* enhances the value of the collection. Further, these English tables have been wisely published in one volume with corresponding data for France and Germany.[1] Nowhere else can be found so extensive and so reliable a record of the development of banking in these three countries, and the course of the money markets in their capitals. Accordingly this volume will prove indispensable to foreign as well as to American students of the subject. It is to be hoped that in future the *Economist* will publish annual compilations in which the present tables will be kept up to date.

M. Albert Aupetit, head of the Department of Economic Studies in the Bank of France, has been engaged to prepare a general book upon *The French Banking System* corresponding to Mr. Withers's volume for England. This number has not yet come to hand; but the rest of the projected French material is complete.

Professor André Liesse of the Conservatoire National des Arts et Metiérs writes of the *Evolution of Credit and Banks in France from the Founding of the Bank of France to the Present Time.* As the title suggests, his volume is far from being confined to the fortunes of the central institution. It contains references, necessarily brief, not only to the growth of other banks, but also to those business conditions, public events, and national habits which have done so much to shape the development of French banking.

[1] Statistics for Great Britain, Germany, and France, 1867–1909.

On the critical side, Professor Liesse has more to say of the defects of the French system than of its lessons for the United States. At present he thinks there is need of more banks devoted to supplying loans for the development of industrial enterprises — a type of business which the great credit companies avoid, and which the Banque de Paris et des Pays-Bas transacts only for large concerns.

The most interesting feature of *The Bank of France in its Relation to National and International Credit,* by M. Maurice Patron, is a discussion of the method of treating crises. M. Patron says that the bank's traditional method of checking a serious outflow of gold by charging a premium upon gold has not been applied since 1897. Instead, the bank has relied upon the policy of extending loans to foreign institutions — particularly the Bank of England. The theory is that the enormous specie reserves of the Bank of France adequately fortify the country against domestic crises. All that France need fear is the reflex influence of foreign storms. Hence it is to the interest of the country that its central bank shall afford timely assistance when the international money market is strained to the danger point. Even then the bank does not extend help directly to the cities most affected, but to London, the great clearing house, whence the French gold flows readily wherever it is most needed. The reader will doubtless ask why, if M. Patron is altogether right and altogether candid, Paris has not become a free market for gold in the same sense as London. If the Bank of France raised no obstacle to withdrawals, why did not French gold go directly to New York in 1907 ? Does the bank have other means of obstructing exports, not less effective than the charging of a premium ?

There is no one more competent than M. Alfred Neymarck, editor of *Le Rentier,* to speak of *French Savings and their Influence.* He puts the annual savings of French investors at not less than three hundred to four hundred million, dwelling complacently upon the fact that most of this huge sum is provided by the hundreds of thousands of

families in modest circumstances. "France is a country of financial democracy." This wide-spread spirit of thrift M. Neymarck holds to be the chief cause of the nation's vast reserve of gold and of the stability of French banks, whose "supremacy . . . in national and international finance is today undeniable."

Another aspect of French finance is treated in *The History and Methods of the Paris Bourse* by M. E. Vidal, editor of *La Cote de la Banque et de la Bourse.* This book will interest students of economic history, for it goes back to the Middle Ages and traces the development of the bourse rather fully through the 17th and 18th centuries. At present M. Vidal thinks that the bourse is laboring under the burden of its long past. Stock-brokers still enjoy monopoly privileges, tho the reasons which justified their establishment during the Revolution long since ceased to exist. Free access to the profession of stock-brokerage should be granted to every one, in his opinion, tho the exercise of the profession should be subject to strict legal regulation. But he admits that the obstacle presented by the vested interests which have grown up under the existing system is difficult to surmount.

Finally come the statistics of banking in France, prepared by MM. Aupetit of the Bank of France and Lefevre of the Crédit Lyonnais. The report includes weekly statements of the Bank of France from 1889–1908, and yearly statements of the other leading banks for a similar period, besides extensive tables of discount rates, gold movements, prices of foreign exchange, etc.[1]

"To my mind," said Senator Aldrich in the address already quoted, "the [banking] system of Germany is for us the most interesting of any, because the German Empire has very largely the same industrial and commercial interests that we have in the United States."[2] In accordance with

[1] One error has caught my attention. The transactions of the Paris Clearing House should have the caption "years beginning April 1," not "years ending March 31"; p. 289.

[2] P. 8.

this view, the Commission has published much more material upon banking in Germany than upon banking in any other foreign country.

Dr. Koch, formerly president of the Reichsbank, has edited a collection of the *German Imperial Banking Laws*, supplemented by the laws and regulations relating to the Berlin Stock Exchange. An introduction and elaborate notes facilitate the use of the volume by students unfamiliar with the details of financial history and practice in Germany. Dr. F. W. C. Lieder's translation of *The Reichsbank, 1876–1900*, — the well-known and highly valued book issued by the Reichsbank at the close of its first quarter century, — describes fully the working of the system created by the laws. The recent modifications of both law and practice are abundantly covered by the ponderous volume on the *German Bank Inquiry of 1908* and by the series of articles on the *Renewal of Reichsbank Charter*. The first is a translation of the stenographic report of the proceedings of the Bank Inquiry Commission upon all the topics which it discussed, except the advisability of legislation in regard to the security and fluidity of the investments of deposits. The second is a translation of articles and documents relating to the work of the commission and its results. Taken together these four volumes make readily accessible all the sources of first-rate importance on the history of the Reichsbank since its foundation. So thoroly has the work been done that no less than three translations of the Bank Act of June 1, 1909, may be found in as many volumes![1]

The *German Bank Inquiry of 1908* affords an opportunity to compare the methods by which amendments of the banking laws are prepared in Germany and in the United States. The German commission had 25 members, including economists like Wagner and Lexis, and men of affairs, — members of the Reichstag, manufacturers, bankers, judges, merchants. It was presided over by the president of the Reichsbank, Herr Havenstein. The American commission has

[1] German Imperial Banking Laws, pp. 128–134; The Reichsbank, 1876–1900, pp. 357–362; Renewal of Reichsbank Charter, pp. 263–268.

17 members, all from the Senate or the House of Representatives, but not all conversant with banking. The task of the German commission was definitely specified by a brief list of questions: Should the capital of the Reichsbank be increased ? Should the tax-free note issue be enlarged ? How can the Reichsbank best protect its gold reserve ? Should the bank seek to draw specie from the domestic circulation into its vaults ? Should means be sought to diminish the credit demands made on the Reichsbank by general business or by the Imperial Government ? The task of the American commission is far wider and less definite — to plan a reform of the banking system. The German commission carried on its work by examining expert witnesses and by discussions among its own members. The American commission has heard a few witnesses and presumably held some discussions; but it has laid far more stress upon the collection of the materials which constitute its publications. The German commission was appointed in April, 1908, examined witnesses in May, began its own deliberations in June, and formulated its conclusions in October. The law based upon its labors was passed June 1, 1909. The American commission was appointed a month later than the German, but has not yet presented its bill.[1] That is should take more time is due partly to the greater magnitude of its task. But even if they had to face the American problem, would the highly efficient German experts still be sitting ?

Abundant as is this German material, it contains no general sketch of the banking system as a whole. The nearest counterpart to the books by Withers and Aupetit for England and France is the volume of *Miscellaneous Articles on German Banking*. Robert Franz, editor of *Der Deutsche Oekonomist*, sketches " The Statistical History of the German Banking System " since 1888; W. Mueller, a director of the Dresden Bank, contributes several lectures on the organization of credit; Wittner and Wolff describe

[1] Senator Aldrich's " Plan," mentioned at the end of this review, does not profess to be more than a tentative basis of discussion.

the giro and check systems; Melchior dilates upon the advantages of the liberal fees paid to bank directors in Germany; and, finally, several writers provide accounts of the different kinds of banks for which Germany is notable — land mortgage associations, agricultural improvement banks, coöperative credit societies, *Darlehnkassen*, etc. More than half of these articles are translations from the *Handwörterbuch der Staatswissenschaften* or from the economic journals; but it is a distinct gain to have all this information assembled between two covers and put into English.[1]

The German statistics are compiled by the Centralverband des Deutschen Bank-und Bankiergewerbes, the Reichsbank, and the *Deutsche Oekonomist.* Like the English and French figures, they constitute the most complete available record of banking operations for their country. So far as possible, all the different kinds of banks are included, and detailed figures are given for discount rates, prices of foreign exchange, gold movements, clearings, etc.

Swiss experience merited especial attention from the Monetary Commission because of the recent establishment of a central bank. Of all European countries, Switzerland longest maintained a decentralized banking system with substantial freedom of note issue. For a long time the problem of reorganization on the model of her great neighbors has been a lively issue in politics. The financial interests of many cantons in the existing note issues, dissensions between the advocates of a purely government and a purely private bank, and jealousies among the various towns which hoped to secure the head office frustrated several attempts at reform. But at last in 1905–06 a compromise bill was passed, establishing the Swiss National Bank. The capital was fixed at 50 million francs, of which the cantons were allowed to subscribe $\frac{2}{5}$, the old banks of issue $\frac{1}{5}$, and the public the remainder. An elaborate system

[1] Dr. J. Riesser's Great German Banks and their Concentration, announced by the commission as a number of their series, has not been received.

of compensation to the cantons for the loss of their revenues from note issue was incorporated in the plan. A gradual withdrawal of the notes of the 36 banks of issue already in the field was required within three years after the National Bank began operations on June 20, 1907. No restriction was imposed upon the amount of notes to be issued by the new institution, except that it should keep reserves of not less than 40%. Further, the bank was required to act without charge as depositary and disbursing agent for the Confederation.

The material published by the Monetary Commission includes a bad translation of Dr. Julius Landmann's history of banking in Switzerland, the text of the law establishing the new bank, and various brief papers and reports regarding its operations to the end of 1908. Altho the bank began business just before the great crisis of 1907, its capital was over-subscribed and the necessary readjustments of Swiss business were effected without serious difficulty. The bank's profits in 1908 were not sufficient to pay the indemnity allotted to the cantons; but the management ascribed this failure chiefly to the depression of business. On the other hand, the management takes credit for having prevented the Swiss discount rate from rising above 5½% when even the Bank of England was charging 7%, and for inspiring confidence by accumulating a specie reserve far above the legal requirement of 40%.[1]

Since the central Bank of Belgium has already served as a model to two nations which were reorganizing their banking systems, — the Netherlands in 1864 and Japan in 1882, — the Monetary Commission had reason to include this institution in its survey. Accordingly Mr. Charles A. Conant, whose writings on money and banking are well known, was asked to prepare a monograph upon *The National Bank of Belgium* — a task which he has

[1] The editing of this volume on The Swiss Banking Law is lamentable. Offences against the English tongue are committed on nearly every page, while the Table of Contents omits all reference to Appendices 4, 5, and 6, and cites as Appendix 2, on the wrong page, the list of references which is printed as Appendix 7.

executed in thoroly competent fashion. After sketching the early history of the bank, Mr. Conant describes in full detail its present organization, operations, and relations to the state. He also provides translations of the laws establishing the bank, extending its charter and defining its duties as fiscal agent of the government, together with the statutes adopted by the shareholders in 1900 for the regulation of its operations. The whole book is interesting and suggestive; but after all the Bank of Belgium remains "a satellite of the Bank of France," [1] and its experience does not possess great significance for the solution of American problems.

Like the case of Switzerland, the case of Sweden is interesting because of a recent centralization of the issue of bank notes. The Swedes, indeed, did not have to establish a central bank, for their Riksbank is older than the Bank of England, having been founded in 1656 on the model of the Bank of Amsterdam and reorganized in 1668 as the Bank of the Estates of the Realm. But after an unhappy experience in the late 18th and early 19th centuries with privately owned discount houses, the country established a peculiar kind of joint-stock banks of unlimited liability, issuing notes, and known as "enskilda banks." The first of these institutions began business in 1831. Their notes were safeguarded by a system not unlike that of our National Banking System — the deposit of securities under the joint control of a public officer and the banks. For reasons which are not made altogether clear, this organization of bank issues proved unsatisfactory, and after long discussions a law was passed in 1897 which required the enskilda banks to withdraw their circulation by the end of 1903, thus giving the Riksbank a monopoly of issue. By this measure the Swedish banking system was brought into general conformity with that of England, France, and Germany. Professor A. W. Flux, who has prepared the

[1] Patron, The Bank of France in its relation to National and International Credit, p. 135.

Commission's volume on Sweden, thinks that this centralization of issue did nothing to aggravate and probably did something to mitigate the severity of the crisis of 1907.

Besides this historical account of *The Swedish Banking System*, Professor Flux provides a supplementary chapter on the banks of Denmark and Norway. He also translates the most important Swedish laws on banking, and reproduces the most significant statistics. His work is well done; but the omission to show just why the old system of issue was given up makes the book less helpful than it might have been in affording lessons for America from experience in Sweden.

*Banking in Russia, Austro-Hungary, The Netherlands, and Japan* is made up of contributions from eight pens. The articles on the European nations are all translations from the third edition of Conrad's Handworterbuch der Staatswissenschaften. The names of Idelson and Lexis, Zuckerkandl, and Van der Borght are a guarantee of good work; but the source is a guarantee that these articles are already familiar to students of banking.

Japan is treated on a larger scale. Marquis Katsura, the present, and Baron Sakatani, a former minister of finance, S. Naruse, a leading financier, and Professor O. M. W. Sprague, who spent several years in the University of Tokyo, all bear a hand. American interest centers in the Japanese effort to build a National Banking System upon our model. This experiment was begun in 1872; but was found unsatisfactory, and practically abandoned by transferring the rights of note issue to a central bank. The latter institution — the Bank of Japan — was founded in 1882 on the model of the Bank of Belgium. The regulations concerning circulation, however, were adopted from the German Reichsbank. The chief defects in the working of the National Banking System seem to have been lack of arrangements for transferring idle funds to sections where they were needed, very high rates of interest, and inability to protect the country's stock of specie by effective operations in foreign exchange.

Mr. Conant's *Banking System of Mexico* is probably of more value to economists than to the Monetary Commission. For the system established on the plans of Mr. Limantour, the great Mexican finance minister, is strikingly original; but the business conditions to which it is adapted are so different from those of the United States as to preclude its use as a model.

In 1897 there were only nine banks in Mexico. The largest was the National Bank — an institution which had developed on the basis of a charter granted in 1881 to the Franco-Egyptian Bank, and which acted as fiscal agent of the government. The next in size was the Bank of London and Mexico, also issuing notes, but looking for its business chiefly to the export trade and foreign exchange. The seven remaining banks taken together were smaller than either of these two institutions. Since each bank had its own special charter or concession there was no general system of banking law.

Mr. Limantour, in planning the revolutionary legislation of 1897, definitely rejected the idea of a central bank with monopoly of issue, chiefly because he thought that the economic organization of Mexico was still too simple and too decentralized to need a responsible regulator of the money market and a custodian of the ultimate banking reserve. Instead, his measure looked toward the establishment of one bank of issue in each state, — protected against indiscriminate competition by exemption from taxes to which additional banks in the same state should be subject. But ample scope was allowed the National Bank to retain its position of primacy as the bank of the government and also as a bank of rediscount.

The most original feature of the system, however, was not planned by Limantour — the establishment of the Banco Central in 1899. This institution is now largely owned by the provincial banks of issue and serves them as a clearing house for notes, somewhat as the Suffolk Bank once served the banks of New England. In addition, the Banco Central has been made an organization for mutual

support. When any provincial bank feels itself in danger, it may notify the Banco Central, and the latter summons the other associated banks to contribute their quotas toward a fund equal to half the capital of the bank in straits. This fund is used in redeeming at par the notes of the threatened institution. For this service the bank aided pays 12% on the advances and costs. Thus, in a sense, Mexico has two central banks with distinct functions, operating harmoniously side by side.

The details of this peculiar system and its practical working are clearly set forth by Mr. Conant. Documentary material, including Limantour's report of 1897, laws, and statistics occupy more than half the volume.

Dr. R. M. Breckenridge's *History of Banking in Canada* requires little comment because its predecessor, *The Canadian Banking System,* has been known since it appeared in 1895 as the best book upon the subject. The new volume extends the historical account to the failure of the Sovereign Bank in 1908, and includes in an appendix the legislation and statistics of recent years. While he prints the text of the "Amending legislation of 1908," which permitted the Canadian banks to issue emergency circulation in excess of their capitals but subject to a tax, Dr. Breckenridge does not discuss its bearings upon the present workings and future prospects of the system. Moreover, the illuminating chapter of the earlier book, upon the practical operations and economic effects of the Canadian system, is omitted.

This omission was doubtless due to the fact that Professor Joseph French Johnson had been asked to investigate these subjects for the Commission. His vivacious report, *The Canadian Banking System,* naturally deals largely with facts which Breckenridge taught us in 1895. But it also contains numerous points of fresh interest. In particular, Johnson makes less than Breckenridge formerly did of the equalizing of interest rates in different parts of the country. In Montreal and Toronto, he says, large borrowers can

get money at 5%, but the average merchant and manufacturer must pay 6%. Rates are but little above this level in Winnipeg, "but further west the usual rate is 7% and in some of the remoter districts merchants and farmers alike pay 8%."[1] In his present book Breckenridge puts the geographical differences of rates at $1\frac{1}{2}$–2%, tho with the admission that frontier towns are charged especially high rates to offset the heavy cost of running branches in regions difficult of access.[2] But even the maximum differences suggested by Johnson are much less than the differences between the rates prevailing in different parts of the United States found by Breckenridge in 1898 and by the Comptroller of the Currency in 1899.[3]

Further, Johnson lays some stress upon the fact that the equalizing of rates is due quite as much to keeping interest up in the east as to keeping it down in the west. "It is generally known that the eastern branches get heavy deposits and are creditors at the head office, and that the funds they collect are forwarded to the western branches, whose loans greatly exceed deposits. Bankers will admit that this transference of funds takes place, but there is considerable grumbling about it in the old communities of the east . . . one cannot help believing that the branch banking system has really checked the development of business and industry in the maritime Provinces."[4]

While admitting that Canada has had no banking panic since its present system was perfected in 1890, Johnson shows that during the panic of 1907 the banks did not have currency enough to supply all the needs of their customers. A heavy contraction of loans in Canada occurred in November and December. Still Johnson credits the claim "that during these two months no man who actually deserved and needed a loan was refused it." These terms

[1] Pp. 87–88 and 102, 103.

[2] History of Banking in Canada, p. 161.

[3] R. M. Breckenridge, "Discount Rates in the United States," Political Science Quarterly, March 1898, vol. xiii, pp. 119–142; Report of the Comptroller of the Currency, 1899.

[4] The Canadian Banking System, pp. 91, 93.

"deserved and needed," however, may be construed very differently by the man who wishes to borrow and the banker who refuses to lend. But after the worst has been said, there can be no doubt that the Canadian banks came through the crisis of 1907 with a far more creditable record than did the American banks.

In passing his final judgment upon the Canadian system, Johnson discredits the critics who hold that the gold reserve is inadequate, but he charges the leading banks with falling sentimental victims to "the rest-fund fad." Had they been willing to carry undivided profits to capital, instead of to surplus, they would have been able to meet even the extraordinary demand for notes in the autumn of 1907 without violating the legal limitation of a bank's issue to the amount of its capital. He also thinks that, while the older banks have no real monopoly, they are "a bit too secretive," and would do well to devise some system of inspection which would give the public more information about their operations, in order to dispel the impression that they are secretly leagued together in a manner prejudicial to the general welfare.

The American material published by the Commission contains four monographs upon banking before the Civil War.

Naturally the Commission is interested in *The First and Second Banks in the United States*. Dr. J. T. Holdsworth of the University of Pittsburg was engaged to prepare an account of the first, Professor Davis R. Dewey of the second.

Our scanty information concerning the business carried on by the first Bank of the United States has long been a source of regret. Dr. Holdsworth made diligent search among the probable sources, hoping to discover records or discussions which would throw light upon the methods and practices followed. But he met with slight success. He found that neither the Girard National Bank of Philadelphia, — in a sense the successor of the Bank of the

United States, — the superintendent of the Girard estate, nor the descendants of the bank's original officers possess any papers of value for his purposes. Treasury officials, also, concurred in the opinion that Knox's unsuccessful search through their old files means that the reports made by the bank to the Treasury were destroyed when the building was burned in 1814 or in 1833. But Dr. Holdsworth has brought some new material to light by reading the newspapers and pamphlets published during the bank's twenty years of life. The minute books and records of the Bank of North America also have given him some valuable data. By utilizing this fresh material in conjunction with the sources formerly known, Dr. Holdsworth has been able to compile an account of the bank which supersedes its slender predecessors. Besides giving a full history of legislation in regard to the bank, and an analysis of its relations to the Treasury, he shows that the institution served the community well in a business way, — not only by meeting the reasonable demands of borrowers, but also by restraining the state banks from over-expansion on the one hand, and on the other hand helping them in times of pressure.

The work of Sumner and Catterall on the second Bank of the United States greatly facilitated the performance of Professor Dewey's task. His account is more concise than Catterall's, more lucid than Sumner's. He naturally lays most stress upon "those operations which might be concerned in the discussion of a central bank at the present time." But he warns readers that both the character of the bank and the conditions of business were such as to make it difficult "to find in the experience of this institution any lessons of importance which may be of special service in the preparation of a plan for a large national central bank at a later period."

In his second contribution to the series, *State Banking before the Civil War*, Professor Dewey again had two predecessors offering guidance. But in this case he has gone distinctly his own way. State banking before the war,

like state finance at present, is an extremely difficult field to cultivate, — it is hard to find materials and harder still to arrange them in significant order. Professor Sumner's *History of Banking in the United States* has brought together a great mass of information, but is so ill-arranged that one can hardly use it except as a secondary source book. The second part of J. J. Knox's volume of the same title likewise contains much material, arranged in the form of separate articles on banking under the laws of each state in turn. No arrangement could be clearer; but none could raise more difficulties for the reader who wishes to find the general lines of development. Now comes Professor Dewey with more information at his command than either Sumner or Knox and his collaborators, and hence with a still more puzzling problem of arrangement on his hands. His solution is to classify according to phases of banking operations. For example, among his most interesting headings are the following: Paying in of capital, State ownership of stock, Scope of business, Methods of evading redemption, Loans and discounts, Specie reserve. Any one interested in learning what the old state banks did with reference to those or 22 other subjects will find Dewey's book exactly to his mind. The scholarly qualities which distinguished the writer's *Financial History of the United States* are again in evidence. But that other student who wants to see the forest, not the trees, must turn away from Dewey hardly less disappointed than he turned away from Sumner and Knox. Happily one hope is left. When Professor Dewey comes to prepare his volume upon banking in the projected *Economic History of the United States* he may yet supplement his admirable collection of materials by a lucid statement of what it all means.

*The Safety-Fund Banking System in New York* is one of the experiments at regulating bank circulation under state law about which much has been written. But Dr. Robert E. Chaddock of the University of Pennsylvania has made a more thoro presentation of the subject than any of his forerunners. By going back to the New

York assembly documents, the session laws, the contemporary newspapers and pamphlets, he has found much fresh material which amplifies our knowledge if it does not greatly change our verdict upon the system. Chaddock concurs in the opinion of Laughlin and Root that, had the system possessed from the outset the restrictions and safeguards imposed by the amendments of 1837 and later years, no losses would have been incurred by note holders. Even as matters stood, he denies that the system was abandoned because it had failed to provide adequate security. On the contrary, it was hostility toward monopoly and disgust with the legislative corruption attending the granting of bank charters which led to the passing of the free-banking law in 1838. The book is so thoro in other respects that one wishes the writer had followed the practice of other contributors to the series of the Monetary Commission by publishing the text of the safety-fund law in an appendix. Further, the final section on the bearing of the system upon the guarantee of deposits sounds perfunctory and inconclusive.

The publications dealing with banking since the Civil War begin appropriately with an account of *The Origin of the National Banking System* by Mr. Andrew McFarland Davis. Mr. Davis finds the first proposal suggestive of the National Banking System in an article published in the *Analectic Magazine* of Philadelphia in 1815. But of course he lays little stress on any of the early suggestions. His chief problem is, What induced Chase to urge a scheme for reorganizing the banking system upon Congress with such emphasis and pertinacity? He shows that several years before the war Chase was thoroly alive to the evils of the circulation supplied by the state banks. But he thinks that the definite plan which grew into the National Banking System was suggested to Chase in August, 1861, by a letter from O. B. Potter. The banking bill embodying Chase's recommendations Mr. Davis attributes to the coöperation of Silas M. Stilwell, — who was conversant

with the bond-secured note system of New York, — Edward Jordan, — Solicitor of the Treasury, — E. G. Spaulding, — "the father of the greenbacks," — and Samuel Hooper, — a man of affairs from Massachusetts, who sat with Spaulding on the Committee of Ways and Means. Their work was further modified in the bill which John Sherman fathered in 1863, and the latter in turn was the basis of the revised act of 1864. But Chase, while not the originator of the idea, or the author of the bill, was the prime mover in establishing the new system. And Chase's prevailing motive, according to Mr. Davis, was less the desire to increase the sale of government bonds than the desire to secure a uniform currency. This conclusion is contrary to received opinion, and it is doubtful whether Mr. Davis's evidence will convince others as fully as it has convinced himself.

Mr. A. D. Noyes's *History of the National Bank Currency* is the most disappointing publication of the whole series. His admirable *Forty Years of American Finance* warranted an expectation that Mr. Noyes would treat this important theme with the thoroness it deserves. Instead he submits a slight essay of 18 pages, which adds nothing to our knowledge of the subject. The Monetary Commission might better have republished Professor Dunbar's essay on "The Circulation of the National Banks," or Professor Laughlin's discussion in the *Report of the Indianapolis Monetary Commission*, with addenda covering the years since 1900.

Limitations of cash payments in times of crisis has been the scandal of American banking since the Civil War, as the condition of the note circulation was before the war. Fortunately the Monetary Commission entrusted the *History of Crises under the National Banking System* to Professor O. M. W. Sprague, a man who has the moral courage to speak plainly on a subject which most financiers and publicists handle with gloves. "The good nature and optimism characteristic of the country," says Professor Sprague, "extends even to financial matters, regarding which there is a painful absence of thoro, unflinching

criticism in any financial journal." His own work deserves no such reproach.

Sprague's book consists of careful analytic studies of the crises of 1873, 1884, 1890, 1893, and 1907 from the banking standpoint. He believes that each of these crises might have been allayed if the New York banks had possessed a reserve of lending power adequate to meet the needs of borrowers and the demands of depositors for money. Local needs the New York banks could care for, if they were not exposed to the external strain of the withdrawal of the deposits made with them by interior banks. But in accepting these deposits they assume responsibility toward banks and customers of banks throughout the Union, — responsibility which they cannot shuffle off by pleading that the trouble is made by the culpable desire of country banks to strengthen their own reserves in face of a threatened panic.

These bankers' deposits, which produce the breaking strain, have been concentrated since the seventies in the hands of a half-dozen of the New York institutions. When a crisis comes, accordingly, the pressure converges upon these bankers' banks. Ordinarily, they keep their funds invested largely in call loans, which in a serious emergency are even less liquid than other classes of loans, and carry cash reserves not notably greater than the institutions doing a strictly local business. Hence heavy demands for return of their bankers' deposits quickly reduce their strength, and they lie down upon the Clearing House. The latter issues clearing-house loan certificates, and formerly supported the certificates by equalizing cash reserves. In combination, these two measures practically turn the New York banks into one enormous institution. The bankers' banks get the cash of the local banks, at a moderate rate of interest, to meet their obligations to interior institutions, and unless the strain is exceedingly severe, suspension of payments is avoided in New York and elsewhere. But the local banks, many of which are in principle opposed to the payment of interest on bankers' deposits, are not

altogether pleased to see their reserves drained away by competitors in times of stress. Hence in 1884, when the issue of clearing-house loan certificates was authorized, the equalization of reserves was rejected, and since then this co-ordinate feature of the relief measure has never been revived. As a result, the bankers' banks can no longer lay their hands upon the reserves of the local banks. Favorable balances at the clearing house bring in nothing but certificates, and certificates cannot be shipped to the interior banks which are insistently calling for their money. Thus the organization for meeting crises has been less effective in recent cases than in 1873. Meanwhile, the New York money market has become more subject to severe strains from a number of sources, and the New York bankers have become more inclined to accept limitation of cash payments as an unfortunate but inevitable concomitant of crises. "It is impossible," Professor Sprague holds, "to escape the depressing conclusion that the banking situation in 1907 was handled less skilfully and boldly than in 1893, and far less so than in 1873. No new elements of weakness were disclosed, but no real effort was made to overcome difficulties which had been met with partial success at least on former occasions."

Professor E. W. Kemmerer's monograph upon *Seasonal Variations in the Relative Demand for Money and Capital in the United States* presents the results of the most elaborate investigation ever made into this subject. His statistical data include interest rates, statements of clearing-house banks, receipts and shipments of currency, prices of domestic and foreign exchange, money in circulation, deposits of gold bullion at the mints, imports and exports of gold, Treasury holdings of money and federal deposits in the banks, clearings, bond prices, and commercial failures. While the author lays most stress upon the seasonal variations of the New York money market, he also covers the money markets of Chicago, St. Louis, New Orleans, and San Francisco as fully as the material permits. Whenever possible, he carries the tables back from 1908 to 1890; but

in many cases he could secure the necessary information for only a few years. To separate the recurring seasonal changes from the changes peculiar to single years, Kemmerer employs averages for each successive week or month of all the years covered. An ingenious system of index numbers, in which each year is treated as a unit, enables him to minimize the disturbing influence of the factor of growth. Almost all the tables of the text are accompanied by charts. While the results serve chiefly to confirm old opinions, they also bring out many novel details concerning local differences in the seasonal demand for money which are interesting to the economist and important to the banker.

Professor David Kinley's *Independent Treasury of the United States* appeared in 1893. The great changes made since that year in the methods of managing the federal funds gave the Monetary Commission good ground for wishing to have the book brought down to date. The new volume is called *The Independent Treasury of the United States and Its Relations to the Banks of the Country*. The central theme of the new sections is Secretary Shaw's various innovations. While Professor Kinley criticises this official severely for stretching the law and for involving the Treasury in an entangling alliance with the banks, he is not sorry that the legislation legalizing Shaw's practices has abolished the Independent Treasury System piecemeal. As matters stand, " the independence of the Treasury depends entirely upon the will of the Secretary" (p. 325). " The formal repeal of the law now would be largely perfunctory " (p. 207). But positive legislation is needed to perfect some new system of keeping the government's money. Professor Kinley mentions five proposals: (1) to extend the present system by authorizing government officers to pay in checks against the depositary banks; (2) to arrange a series of clearing houses to serve as depositaries; (3) to set up a central bank for the purpose; (4) to create a federation of the present banks, and (5) to make the Treasury itself a government bank. But he does not undertake to decide which of theses plans is best from the fiscal standpoint.

The same writer's *Use of Credit Instruments in Payments in the United States*[1] reports the results of an investigation conducted by the Comptroller's office under Kinley's supervision and modelled on the well-remembered investigation of 1896. Nearly 11,500 banks sent in acceptable returns showing the proportions of specie, currency, and checks in deposits amounting to $688,000,000 made on March 16, 1909. Kinley analyzes the results minutely, but it is sufficient to note his broad conclusions, that 50–60% of retail trade is transacted by checks, about 95% of wholesale trade, and 80–85% of all business. Even in the paying of wages checks are used to the extent of 30%, if the pay-roll data supplied by the banks for one week may be relied upon.

Since its publication in 1900, Mr. James G. Cannon's *Clearing Houses* has been the standard treatise on the subject. Hence economists will welcome the revised edition under the same title which Mr. Cannon has prepared for the Monetary Commission. Among the most important of the developments since 1900 which Mr. Cannon describes are the establishing of the clearing house for out-of-town checks in Boston, the appointment of clearing-house examiners in Chicago and elsewhere, and the issue of clearing-house loan certificates in 1907. His chapter upon the latter subject is perhaps the least satisfactory in the book. It is an uncritical record, and less complete than Dr. A. P. Andrew's article upon "Substitutes for Cash in the Panic of 1907."[2]

The volume upon *Suggested Changes in the Administrative Features of the National Banking Laws* contains both the replies to a circular letter sent out by the Commission

[1] Unfortunately, Professor Kinley did his work upon this monograph under severe pressure. Numerous discrepancies appear between the data given for the same facts on different pages. For example: the summaries for national and state banks on p. 133 do not tally with the tables on pp. 125–127, and these wrong figures become the basis of a misstatement in the text at the top of p. 137. Similarly, the summaries for state banks and loan and trust companies, on p. 171, do not tally with the tables on pp. 163 and 166. On p. 200, Professor Kinley says that 70% of the reported pay rolls were in checks, when he means to say in money.

[2] Quarterly Journal of Economics, August, 1908.

in September, 1908, and the statements made to the Commission by officials of the Treasury and the American Bankers' Association in December of the same year. The topics dealt with are all matters of detail, such as the best way of appointing and paying national-bank examiners, how loans from a bank to its officers should be limited, whether examiners should be given duplicates of statements of condition sent to the Comptroller, how banks can be made to reimburse the Treasury promptly for redemption of their notes so as to keep the 5% redemption fund intact, etc. Both the letters and the oral statements are full of interest to one concerned with the administration of banking. The discussion has already borne fruit in more vigorous efforts on the part of the Comptroller's office to enforce stricter compliance with the law and greater diligence upon the part of directors.

Two compilations of banking laws may also be dismissed with a statement of their scope — tho one of them really does fill a long-felt want. The first volume, *Laws of the United States concerning Money, Banking, and Loans, 1778–1909*, compiled by two Treasury officials, Messrs. Huntington and Mawhinney, is merely the latest of a series of compilations of like scope. In this book the laws are arranged in chronological order under four headings, — finance, banking, coinage, and paper money. Marginal summaries facilitate the finding of matter wanted. For some reason, no table of contents was provided; but this omission has been remedied by the issue of a separate pamphlet. Convenient as this collection is, it does not altogether displace Dunbar's old volume of laws; for the latter contains several important bills which failed to pass Congress or to secure the assent of the President.

The second volume is a *Digest of State Banking Statutes*, prepared by Samuel A. Welldon. The material is arranged (1) by states in alphabetical order, (2) under each state by commercial banks, savings banks, and trust companies, and (3) under each of these groups by twelve sub-heads, relating to the subject matter legislated upon. The inter-

pretation of the statutes by court decisions has not been included, because of the great amount of labor involved in such an undertaking. To secure accuracy the material for each state was sent to the supervisor of banking with a request for suggestions. To facilitate comparison between the laws of different states upon given subjects, the digest is preceded by a tabular summary. This volume promises to become indispensable to all who have to deal with state banking; but in many detailed uses it must be supplemented by reference to court decisions. The fact that Mr. Welldon has done so much makes one wish that he had been able to do more, by including the interpretation as well as the letter of the laws.

Professor George E. Barnett's *State Banks and Trust Companies since the Passage of the National-Bank Act* makes a valuable companion piece to Welldon's *Digest.* It is in substance a thoroly revised edition of the author's monograph of 1902,[1] brought down to date, extended to include trust companies, and supplemented by a reprint of Mr. Thornton Cooke's articles upon " The Insurance of Bank Deposits in the West," which appeared first in the columns of this *Journal.* The systematic survey of state legislation regarding the incorporation of banks, capital, liability of stockholders, restrictions upon loans, reserves, the establishment of branches, supervision, and failures, is followed by an account of the rapid growth in the number of state banks and trust companies. Particularly noteworthy is the discriminating discussion of the relative advantages to a bank of incorporating under state and under national law. One factor, however, of importance in California and perhaps elsewhere, has been overlooked — the unequal burden of the taxes imposed upon state and national banks.

The statistical material concerning banking in the United States is presented in four documents. The volume of *Statistics for the United States, 1867–1909,* compiled by

[1] State Banking in the United States since the Passage of the National Banking Act. John Hopkins University Studies in History and Political Science, Series XX, Numbers 2, 3.

Dr. A. Piatt Andrew is a companion piece to the volume of *Statistics for Great Britain, Germany, and France* described above. Of course, most of the tables are derived from, or based upon, the reports of the Comptroller of the Currency; but Dr. Andrew has wisely included statements of the clearing-house banks of New York and Chicago, interest and foreign exchange rates in New York, domestic exchange rates on New York from interior points, etc. In short, the volume offers much the completest statistical survey of American banking to be had. The most serious criticism to which the book is open is that Dr. Andrew did not use the revised figures for the stock of gold in years preceding 1907.[1]

Accompanying the statistics is a folio containing 24 *Financial Diagrams*, printed in colors, and graphically illustrating the fluctuations of banking capital, note circulation, interest rates at home and abroad, gold movements, etc.

Finally, the Commission has published a *Special Report from the Banks of the United States*, and a *Supplement* to this report, showing the results of an investigation made by the Comptroller's office as of April 28, 1909. The special feature which differentiates this report from the regular reports obtained five times a year from the national banks, is that an effort was made to get the completest possible returns from state, private, and savings banks and from loan and trust companies. In addition, information was asked upon certain points not ordinarily covered — particularly with reference to the payment of interest upon deposits. It turns out that of nearly ten billions of individual deposits reported by the commercial banks, two billions are savings deposits, and that six and a half billions are non-savings deposits but nevertheless draw

[1] Having had occasion to use Dr. Andrew's annual averages of the New York Clearing-House statements, I have discovered that the figures do not agree with the weekly returns from which they have been computed. Not less than 15 cases of inconsistency have been found in the tables for 1890–1908. Comparison with the tables published in the *Financial Review* indicates that the weekly figures are correct, except for loans in 1897, and that the errors were made in striking the averages.

interest, while not much over one billion of deposits are non-interest bearing.[1]

The miscellaneous publications, which conclude the series, cover a wide range.

Two articles by practical bankers, Paul M. Warburg and Lawrence M. Jacobs, are devoted to exploiting the superiority of bills of exchange over promissory notes.[2] The courts have decided that national banks have no legal power to accept time bills drawn upon them. Hence American bankers have been prevented from adopting the methods current in Europe of providing mercantile credit by accepting for their customers bills which the customers can discount on the strength of the endorsement by the banks. These bank endorsements standardize the commercial paper found in European markets, so that it can be bought and sold like graded commodities by institutions at home or abroad which have no knowledge of the business standing of the original drawers. The promissory notes of this country, on the contrary, possess no such uniformity of credit; for without bank endorsements their value remains dependent upon the credit of the miscellaneous makers. As a result, we have no public discount market, no standard discount rate, and little chance to induce European capital to buy our commercial paper; our importers have to finance their purchases and our exporters their sales through Europe; our local banks cannot secure rediscounts without loss of standing, our idle funds go in the form of deposits with reserve agents and call loans to support stock speculation in Wall Street, etc. These vigorous statements by men familiar with banking practices in Europe and New York bring into the field of discussion a topic which has not received the consideration it merits. But that the benefits resulting from a legalization of acceptances by national banks may be overrated has been shown in these columns by Professor Sprague.[3]

1 Supplement to Special Report, p. 82.

2 The Discount System in Europe and Bank Acceptances.

3 Quarterly Journal of Economics, May, 1909, vol. xxiii, pp. 402, 403.

*The Credit of Nations* by Francis W. Hirst, editor of the *Economist*, contains some references to local debts, but is mainly an account of the national debts of England, Germany, France, and the United States. For the European countries Mr. Hirst has relied chiefly upon the *Denkschriftenband zur Begründung des Entwurfs eines Gesetzes betreffend Aenderungen im Finanzwesen*, compiled by the German Imperial Treasury, and published in 1908. For the United States he has been content to use secondary authorities, such as the books of Bolles, White, and Dewey. One of the most interesting facts brought out by Mr. Hirst is that at present British towns can borrow more cheaply than the Empire of Germany. The book is pleasantly written, but reveals no wide research and no profound analysis.

Another editor of an English financial paper, George Paish of the *Statist*, treats *The Trade Balance of the United States*. His method is to run over the various items in the trade balance and set down under each heading an estimate of the net payments or receipts by the United States. The scope of the discussion and the character of the conclusions may both be indicated by giving his results for the fiscal year 1909. On merchandise account the country had a credit balance of $351,000,000, which was raised to $411,000,000 by an excess of exports of precious metals over imports. On the other hand, the country had debit balances of $250,000,000 on interest account, $170,000,000 on tourist account, $150,000,000 on account of remittances to friends of immigrants, and $25,000,000 on freight account. Deducting the total of these debit balances — $595,000,000 — from the credit balance above, Mr. Paish finds us with a net debit balance of $184,000,000, which was liquidated by permanent or temporary investments of capital by other countries in the United States.

It will be noticed that several items included by other writers on the subject do not come into this estimate. Two are excluded because Mr. Paish thinks that the net payments and receipts approximately cancel each other, —

money brought in and taken out of the country by arriving and departing immigrants, and the payment and receipt of insurance premiums and policies. But Mr. Paish has little or nothing to say of certain items which Dietzel and others regard as important, — undervaluation of imports to reduce tariff duties, over-valuation of exports to conceal sales abroad below the prices charged to domestic purchasers, profits or losses by foreigners on purchases and sales of American securities, etc. The one thing which all such studies make clear is that estimates of the trade balance are subject to a broad margin of error. But the one thing which Mr. Paish most wants to establish is that the United States should create a central bank, in order that it may obtain the gold it requires with less disturbance to commerce.

The unsigned volume of *Notes on the Postal Savings-bank Systems of the Leading Countries* covers a wider field than the title suggests. For once Sierra Leone, British Guiana, Formosa, and a dozen powers of equal magnitude might take rank among the leading nations. Geographically the work is exhaustive. Not so much can be said for it upon the systematic side. The subjects treated are the history and organization of postal savings-bank systems, the conditions under which funds may be withdrawn, the cost of administration, and the rate of growth as shown by statistics. More than half of the 128 pages are devoted to replies made by American consuls to a *questionnaire* — not the best sort of material.

One of the first acts of the Monetary Commission was to ask the Secretary of the Treasury to detail Mr. J. O. Manson, Chief of the Division of Accounts, Redemption, and Issues, to prepare a report on the *Fiscal Systems of the United States, England, France, and Germany*. Mr. Manson went to Europe and conferred in London, Paris, and Berlin with executive officials charged with the supervision of receipts and expenditures. His report is concise and systematic, tho less detailed with reference to other countries than with reference to England. A discussion of methods of balancing the budget — the weakest point of

our federal finance — did not come within the scope of his inquiry. Perhaps the most important difference which he brings out between the American and European systems is the fuller use of banks by foreign governments in keeping and transferring funds, receiving payments, and making disbursements.

Another side of the Commission's work is represented by the report of *Interviews on the Banking and Currency Systems of England, Scotland, France, Germany, Switzerland, and Italy* and its pendant, *Interviews on the Banking and Currency Systems of Canada.* These volumes contain the information gained from leading foreign bankers by representatives of the Monetary Commission who visited Europe in 1908 and Canada in 1909. Senator Aldrich has intimated that the Commission profited greatly by these personal inquiries. But the reader who is to do likewise must possess patience. There are few arrangements of material so unsystematic as that produced by stenographic reports of conversations. Matters of interest may be brought out; but unless the interviews have been planned in advance with the greatest care, the reader must spend almost as much time as the investigator in getting his information. A digest would have been better than a stenographic report. The volumes are published without even indexes.

One passage may be pointed out, because few will read far enough to find it. In interviewing officials of the Reichsbank, some member of the Commission mentioned the charge made here and in England, that Berlin is not a free market for gold, because in times of stress the Reichsbank suggests to other banks that it is not agreeable to have gold exported. The answer of the Germans was positive indeed. "It never has been the case and never will be the case that any such suggestion has been made by the Reichsbank to anybody. If it happened during the last crisis that some of the banks refused to export gold, that was done for wrongly understood patriotic reasons. The Reichsbank is not in favor of such measures and it is very sure that such a thing will not happen again." [1]

[1] P. 358.

Last comes the *Suggested Plan for Monetary Legislation submitted to the National Monetary Commission by Hon. Nelson W. Aldrich.* While the Chairman does not propose to imitate any of the banking systems described in the preceding publications, he has formulated his suggestions "in the light of the great mass of information which the Commission has gathered." Continued use of this information must be made both by the Commission in elaborating its bill and by all who take serious part in the discussion of that measure. Whatever may be the legislative outcome of the Commission's labors, it has already performed a notable service by gaining fresh and diffusing old knowledge of the subjects with which it deals.

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